

# Joint Stock Company ‘Halyk Savings Bank of Kazakhstan’

## Consolidated financial results for the nine months ended 30 September 2015

Joint Stock Company ‘Halyk Savings Bank of Kazakhstan’ and its subsidiaries (together “the Bank”) (LSE: HSBK) releases its condensed interim consolidated financial information for the nine months ended 30 September 2015.

### **9 months 2015 financial highlights**

- Net income is almost flat YoY at KZT 92.0bn;
- Net interest income before impairment charge is up by 17.0%;
- Impairment charge is up to KZT 8.5bn (KZT 0.4bn for 9m 2014);
- Net interest income is up by 8.8%;
- Fees and commissions from transactional banking are up by 14.2%;
- Net interest margin is up to 6.5% p.a. (5.6% p.a. for 9m 2014);
- Cost-to-income ratio is at 27.7% (28.0% for 9m 2014);
- RoAE is at 25.5% p.a. (30.0% p.a. for 9m 2014);
- RoAA is at 4.1% p.a. (4.5% p.a. for 9m 2014);
  
- Total assets are up by 35.0%, YTD;
- Net loans to customers are up by 19.4%;
- Total equity is up by 6.5%;
- NPLs 90-day+ ratio is down to 12.8% (12.9% as at 31 December 2014);
- Cost of risk<sup>1</sup> is at 0.4% p.a. (0.0% p.a. for 9m 2014).

### **3Q 2015 financial highlights**

- Net income is up 31.2% YoY to KZT 36.7bn;
- Net interest income before impairment charge is up by 18.1%;
- Impairment charge is up to KZT 6.9bn (recoveries of KZT 0.9bn for 3Q 2014);
- Net interest income is down by 5.6%;
- Fees and commissions from transactional banking are up by 10.9%;
- Net interest margin is up to 6.3% p.a. (5.6% p.a. for 3Q 2014);
- Cost-to-income ratio is at 23.8% (30.4% for 3Q 2014);
- RoAE is at 29.8% p.a. (26.1% p.a. for 3Q 2014);
- RoAA is at 4.5% p.a. (4.0% p.a. for 3Q 2014);
  
- Total assets are up by 28.3%, q-o-q;
- Net loans to customers are up by 11.9%;
- Total equity is up by 6.5%;
- NPLs 90-day+ ratio is down to 12.8% (13.3% as at 30 June 2015);
- Cost of risk<sup>1</sup> is at 1.2% p.a. (negative 0.3% p.a. for 3Q 2014).

### **Statement of profit or loss review**

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<sup>1</sup> impairment charge on loans to customers as a percentage of monthly average balances of gross loans to customers, annualised.

**Interest income** increased by 16.1% for 9m 2015 vs. 9m 2014 mainly due to increase in average balances of net loans to customers by 15.7% and increase in average interest rate on net loans to customers to 12.4% p.a. for 9m 2015 from 12.1% p.a. for 9m 2014. **Interest expense** increased by 14.4% for 9m 2015 vs. 9m 2014 mainly due to local bond issues in 9m 2015 and loans drawn from JSC Entrepreneurship Development Fund “Damu” (“DAMU”) and JSC “Development Bank of Kazakhstan” (“DBK”). The increase in interest expense was partially offset by decrease in average balances of term deposits of legal entities. As a result, **net interest income before impairment charge** increased by 17.0% to KZT 114.3bn for 9m 2015 vs. 9m 2014.

**Impairment charge** for 9m 2015 increased to KZT 8.5bn vs. KZT 0.4bn during 9m 2014. **Provisioning level** decreased to 13.1% as at 30 September 2015 vs. 13.8% as at 30 June 2015 and 14.8% as at 31 December 2014 mainly on the back of loan portfolio growth and decrease in NPLs.

**Fee and commission income from transactional banking** (i.e. excluding pension fund and asset management) increased by 14.2% for 9M 2015 vs. 9M 2014 mainly as a result of higher volumes of payments and increase in certain tariffs.

**Other non-interest income** increased to KZT 130.1bn for 9M 2015 vs. KZT 20.0bn 9M 2014 mainly due to positive revaluation gain for KZT 107.5bn on trading operations (USD/KZT swaps, off-balance sheet), as a result of KZT devaluation in August 2015. This gain was partially offset by loss on translation differences (other non-interest expenses) for KZT 94.2bn as a result of short USD position on balance sheet.

**Operating expenses** grew by 12.7% for 9m 2015 vs. 9m 2014 mainly due to increase in salaries of the Bank’s employees starting from 1 July 2014 and consolidation of JSC Altyn Bank in 4Q 2014.

The Bank’s cost-to-income ratio decreased to 27.7% for 9m 2015 from 28.0% for 9m 2014 as a result of higher operating income in 9m 2015, driven by interest income growth and gain on USD/KZT swaps.

### **Statement of financial position review**

**Total assets** increased by 35.0% vs. YE 2014 mainly in cash and cash equivalents (88.8%), loans to customers (19.4%) and financial assets through profit or loss (7.9 times).

**Loans to customers** increased by 17.1% on a gross basis and by 19.4% on a net basis vs. YE2014. Gross loan portfolio growth was attributable to increase in loans across all types of businesses: corporate loans by 15.3%, SME loans by 15.3% and retail loans by 22.5%.

**90-day NPL ratio** decreased to 12.8% as at 30 September 2015 vs. 13.3% as at 30 June. The decrease in 90-day NPL ratio was mainly due to the Bank’s loan portfolio growth and bad loan write-offs for KZT 21.3bn during 3Q 2015. As at 30 September 2015, the Bank’s IFRS provisions covered 90-day NPLs by 101.5%.

**Term deposits and current accounts of legal entities** increased by 48.5% and 30.5%, respectively, vs. YE 2014 as a result of new funds placed with the Bank during 9m 2015, as well as positive revaluation of FX deposits after KZT depreciation in August 2015.

**Term deposits of individuals** increased by 39.0% and **current accounts of individuals** decreased by 1.5% vs. YE 2014. The increase of deposits was mainly a result of KZT depreciation in August 2015, as well as new funds placed with the Bank. The decrease of current accounts was due to partial withdrawal of funds by some clients during 9m 2015 for various consumer purposes.

**Amounts due to credit institutions** increased by 45.6% vs. YE 2014 mainly due to loans drawn by the Bank in 1Q 2015 from government entities DAMU and DBK within the framework of state programmes, supporting certain sectors of economy, as well as higher volumes of REPO-transactions made through the Kazakhstan Stock Exchange in 3Q 2015.

**Debt securities issued** increased by 69.8% vs. YE 2014 mainly due to senior unsubordinated local bonds placed by the Bank with JSC Single Accumulated Pension Fund during 9m 2015 and, to lesser extent, due to recalculation of USD-denominated Eurobond issues at new KZT exchange rate after KZT depreciation in August 2015. The local bonds were placed in several tranches for the total amount of KZT 131.7bn at a 7.5% coupon rate and mature in February 2025. The increase in debt securities issued was partially offset by timely repayment of KZT 4.0bn 10-year subordinated local bond bearing a coupon of inflation rate plus 1%, on 13 April 2015 and KZT 3.0bn 10-year subordinated local bond bearing a coupon of 7.5%, on 10 July 2015.

On 3 November 2015, the Bank made another scheduled repayment of KZT 5.0bn 10-year subordinated local bond bearing a coupon of 15% minus inflation rate.

**Total equity** increased by 6.5% vs. 31 December 2014 due to net profit earned during 9m 2015.

The Bank's regulatory capital adequacy ratios decreased to k1 – 17.6%, k1-2 –17.6% and k2 – 17.8% as at 30 September 2015 from k1 – 19.1%, k1-2 – 19.1% and k2 – 19.4% as at 30 June 2015, whereas Basel Tier 1 capital adequacy ratio and total capital adequacy ratio decreased to 17.9% and 18.3%, respectively, as at 30 September 2015 from 18.7% and 19.4%, respectively, as at 30 June 2015. The decrease in capital adequacy ratios was mainly due to growth in FX denominated risk weighted assets as a result of KZT devaluation in August 2015.

The condensed interim consolidate financial information for the nine months ended 30 September 2015, including notes attached thereto, are available on Halyk Bank's website:

<http://www.halykbank.kz/en/financial-reports> and <http://www.halykbank.kz/en/news>.

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